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## Viewing cable 06SOFIA190, BELENE NUCLEAR PLANT: KEY TO DIVERSIFICATION,

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Reference ID	Created	Released	Classification	Origin
<a href="#">06SOFIA190</a>	2006-02-03 11:58	2011-08-30 01:44	<a href="#">CONFIDENTIAL</a>	<a href="#">Embassy Sofia</a>

Appears in these articles:

<http://www.bivol.bg/wlbelene.html>  
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SUBJECT: BELENE NUCLEAR PLANT: KEY TO DIVERSIFICATION,  
PIECE OF THE RUSSIAN (ENERGY) EMPIRE OR ALBATROSS?

REF: 05 SOFIA 2063

Classified By: Amb. John Beyrle for reason 1.4 (b)

**¶1.** (C) SUMMARY: The EU requirement that Bulgaria close Kozloduy Nuclear reactors 3 and 4 by the end of the year as part of the accession process, combined with increased international gas and oil prices and pressure by Russia's Gazprom to renegotiate gas delivery contracts, has focused the GOB again on building a new nuclear plant at Belene. February 1 marked the closing of the bid submission process and the beginning of a five month review and negotiation period before the GOB decides which of two international consortia will build the plant - 2,000 MWe from two units.

**¶2.** (C) Bulgaria is faced with tough choices on its energy future in order to diversify its sources. Belene nuclear plant is perhaps the most interesting and risky option. Both the Russian and Czech led bidders will incorporate international partners into key construction and supply areas, using Russian light-water reactor technology. However, it appears both groups are at least partially-owned by Gazprom ) which has been squeezing Bulgaria on gas contracts (reftel). Outstanding questions of cost, financing, the role of Russian and other international players, the prices of alternative sources of energy, environmental concerns, and the actual need for Belene, will determine whether this weighty project gets off the ground.  
END SUMMARY.

IS THERE A NEED FOR BELENE?

**¶3.** (U) Under the EU Accession process, Bulgaria has already closed Kozloduy units 1 and 2, and will close 3 and 4 by the end of 2006. (All four have 1970's vintage VVER-440 reactors. The remaining operational units, 5 and 6 are VVER-1000's.) The Bulgarian energy community estimates that between 2010 and 2015 Bulgaria will need an additional 1,000 to 2,000 MWe in order to replace this lost nuclear capacity, maintain energy independence, continue to export electricity, meet international environmental standards and satisfy anticipated higher domestic electricity consumption. In remarks on January 27, Minister of Economy and Energy Rumen Ovcharov told parliament that due to its closure of Kozloduy, Bulgaria has in effect become the only country to pay for EU membership before joining.

**¶4.** (U) Bulgaria currently relies on foreign fuel supplies for 87.1 percent of its energy consumption. Virtually all of Bulgaria's natural gas (88.3 percent) and oil (73 percent) come from Russia, as does all of its nuclear fuel. In fact, with the exception of the coal-fired thermal plants at Maritsa East, all electricity generation is based on Russian sources ) even the coal-fired plant on the Black Sea in Varna relies on specially-processed Russian coal.

15. (U) Despite this over-reliance on Russia, some experts have raised concerns about various aspects of the Belene project, including whether Bulgaria really needs additional nuclear capacity. Scientists from the Bulgarian Academy of Science said the government overestimates future domestic electricity demand and discounts increased energy efficiency. They estimate in-country consumption to be less than 44,000 million kWh in 2010 vice the 63,000 million kWh estimated by the government. In-country electricity consumption has been declining in recent years, falling to 36,000 million kWh in 2004, according to official statistics.

16. (C) In addition, private economists and the IMF representative have told us they question whether the GOB should put state resources into such a costly project when they are trying to privatize much of the energy sector and preparing to be more competitive with European companies in a deregulated market.

OWNERSHIP STRUCTURE: OPTIONS GALORE, DECISIONS PENDING

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17. (C) The GOB hired Deloitte&Touche to coordinate the financial aspect of the project. Deloitte&Touche estimates that construction will cost between 2-4 billion euros and would require at least 60 percent foreign financing. The Belene project falls squarely between two contradictory government policies: On one hand, the government hopes to minimize its financial involvement in order to honor its agreement on a budget surplus with the IMF. On the other

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hand, the government would like to retain control. Minister Ovcharov told Amb. Beyrie recently the GOB is weighing three options for ownership structure: Majority government ownership, minority government ownership, and private ownership. Ovcharov said the GOB seeks a balance between various international partners, but wants to keep a key role for the state. He said a decision on ownership should come within a month.

18. (C) A representative of Parsons, advisor to the GOB for Belene, has suggested the GOB establish a joint national nuclear company, consisting of Kozloduy Units 5 and 6 and Belene, to enable project finance options. However, XXXXXXXXXXXX, have told us Kozloduy carries 400 Million euros in debt to RosExim Bank (Russia) this approach would result in a non-transparent transfer of state assets. Ovcharov is also discussing the possibility of a "super electric company" consisting of Belene, Kozloduy and the Maritsa East plants, which would compete with European companies.

19. (U) Other critics argue that Belene may well result in the most expensive electricity in Bulgaria. The financial consultant calculated the most expensive electricity in Bulgaria -- 2.48 euro cents per kWh -- is being generated by the thermal power plant Bobovdol, while Kozloduy electric

TECHNICAL AND TENDER DETAILS

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10. (U) Discussion of a second nuclear power plant in Bulgaria started as far back as the early seventies. Construction work on Belene Unit 1 began in 1987, based on the design of the pressurized water reactor in Kozloduy Units 5 and 6 -- VVER-1000 (B-320). Work was suspended in 1990 due to lack of funds and environmental concerns. The GOB estimates that about 40 percent of Unit 1 is completed, including major civil works and equipment installation worth about USD 660 million, but skeptics wonder whether this nearly twenty year-old infrastructure will require extensive refurbishing.

11. (U) The Council of Ministers decided in April 2005 to proceed anew with light water reactors that would allow use of the existing infrastructure. The government's preference for a pressurized light water reactor eliminated one of the potential bidders led by the Canadian AECL, which offered to build two &CANDU 68 units. The government has hired US/UK Parsons E&C Europe as architect-engineer to assist in preparing the bidding procedure, evaluate bids, negotiate contracts, and provide general management service during the entire project execution. In return, Parsons will receive almost 17 million euros. Parsons advised the GOB to either upgrade the existing VVER 1000 MWe (B-320) on the Unit 1 site and install VVER 1000 MWe (B-466) on the Unit 2 site, or build VVER 1000 MWe (B-466) on each of the two Units.

12. (U) The Bulgarian government selected a combination of turnkey and split package (island) contracting approach. While the tender explicitly organized the construction work into two separate contracting bids for design and construction of the reactor (Nuclear Island) and turbine (Turbine Island), the Nuclear Island contractor will be responsible for the general coordination and implementation of the project.

13. (C) Two groups submitted bids by the February 1 deadline: a consortium of the Russian Atomstroyexport and French/German Framatom, and the Czech Skoda group. While both consortia are ready to complete the existing type of reactor, the Russians have expressed interest in installing a second more advanced (VVER 1000 (B-466)) reactor on the Unit 2 site. Skoda has partnered with Westinghouse for completion of the existing reactor VVER 1000 MWe (B-320) using the same technology as in the Czech Temelin plant. Parsons told us they are not happy with the French proposal for the Instrumentation and Control solution, and would prefer Westinghouse I&C equipment that successfully upgraded Kozloduy reactors 5 and 6.

14. (U) While the GOB decides on an ownership and financial

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structure, Parsons will lead a technical review and negotiations with the two consortia, which will last until July. At that time, a decision is expected on who will build the plant. The project should be completed within 120 months after the contract is signed with the first unit to be commissioned in 2010-11.

RUSSIAN/INTERNATIONAL ANGLE

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15. (C) Ovcharov told us the GOB wants to find a way to

balance the interests of all international players, meaning that members of both consortia would have discrete projects. However, an official within the ministry said that, while the project is big enough to include roles for all, this could be its downfall as well. Former Minister of Economy and Energy Milko Kovachev asserted that the fact that the plant uses Russian light-water technology does not signify a threat to Bulgaria and that a Russian-led consortium could be selected to build the plant. The risk, he said, is if the GOB opens ownership to the private sector and Russian-led groups were to win a controlling share.

**¶16. (C)** XXXXXXXXXXXXX told us she researched Skoda and Atomstroyexport and found links in both to Gazprom through Gazprom Bank. Gazprom Bank apparently owns a part of Atomstroyexport, and recently purchased a large share in the Russian company OMZ, which in turn owns a majority of Skoda. A Ministry of Energy Director confirmed to us this information, but said that Gazprom has not officially claimed they own OMZ. In any case, that would not affect the bidding process. XXXXXXXXXXXXX told us the concern would come only if OMZ adversely influenced Skoda's desire to seek nuclear supply from Westinghouse ) thereby keeping Russia in control of nuclear fuel supply. Skoda told XXXXXXXXXXXXX that Russian ownership does not mean control over policy. Another concern is that AtomstroyExport and Skoda could collude on the bids, which could harm potential investors and/or Bulgarian taxpayers and consumers who would not enjoy the benefits of a transparent, competitive bidding process.

#### BULGARIAN HOPES -- AND FEARS

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**¶17. (C)** Public opinion polls indicate strong regional support for nuclear power and completion of Belene, according to XXXXXXXXXXXXX. XXXXXXXXXXXXX told us that implementation of the project will result in a significant decrease in unemployment in Bulgaria's depressed north-central region. Belene will also satisfy international environmental standards and meet the country's commitments to reduce air emissions, according to the GOB.

**¶18. (U)** However, a local environmental organization, Ecoglasnost, supported by Greenpeace, has tried to stop the project. Environmentalists claim the GOB revived the project without fully evaluating the radioactive waste threat for Bulgaria. The completion of Belene would entail the expansion of the nuclear waste storage facility in Novi Han, which could negatively affect its population, according to Ecoglasnost, Greenpeace has also criticized the location of the site on a seismically active area, and complained that Bulgaria ) as one of the least energy-efficient countries in Europe ) needs to focus on improving its existing infrastructure.

#### COMMENT

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**¶19. (C)** Belene, if structured properly with full international participation and ownership, could diversify Bulgaria's energy independence and continue Bulgaria's success as an electricity exporter. However, if Gazprom becomes a majority owner, using Russian technology and fuel, Bulgaria would be even more beholden to one energy source than before. In both candid private conversations with us and in more nuanced public statements, the President and Prime Minister have made clear that Bulgaria's strategic interests lie in greater diversity of energy sources. There is no doubt that Belene, Gazprom and the proposed Burgas-Alexandropoulos oil pipeline are all inter-connected. Ovcharov has said Bulgaria will agree to re-negotiate gas transit fees if Russia invests strongly in Bulgaria. Since two of the only major projects for potential large Russian investments right now are B-A pipeline and Belene, it is possible that Ovcharov is laying the groundwork with the

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Bulgarian public for a deal with Russia.

**¶20. (C)** It is clear that Bulgaria is at a crucial stage in deciding how to ensure its own energy independence and the demands of its growing economy - a message we deliver repeatedly at the highest levels. President Purvanov, PM Stanishev and Ovcharov seem to understand the stakes. Bulgaria's economic, and to some extent political, independence depends on how effectively they deal with Russia's supply monopoly in the short term, while building greater source diversity for the future. A separate forthcoming cable will examine this dilemma with a focus on oil and gas.  
Beyrle